

BRANCH AREA TRANSIT AUTHORITY

FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

YEAR ENDED SEPTEMBER 30, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name BRANCH AREA TRANSIT AUTHORITY	County BRANCH
Audit Date 9/30/05	Opinion Date 11/4/05	Date Accountant Report Submitted to State: 11/29/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

RECEIVED
DEPT. OF TREASURY

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

DEC 01 2005

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes or in the report of comments and recommendations

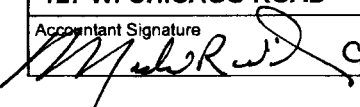
LOCAL AUDIT & FINANCE DIV.

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) NORMAN & PAULSEN, P.C.			
Street Address 127 W. CHICAGO ROAD	City STURGIS	State MI	ZIP 49091
Accountant Signature  CPA Michael R. Wilson		Date 11/29/05	

C O N T E N T S

	<u>Page</u>
Independent Auditor's Report on Financial Statements	1-2
Management's Discussion and Analysis	3-7
 BASIC FINANCIAL STATEMENTS	
Statement of Net Assets	8
Statement of Revenues, Expenses, and Changes in Net Assets	9
Statement of Cash Flows	10-11
Notes to Financial Statements	12-19
 OTHER SUPPLEMENTAL INFORMATION	
Statement of Operating Revenues	20
Statement of Nonoperating Revenues	21
Statement of Operating Expenses	22
Statement of Operating Expenses by Category	23
Statement of Expenses by Contract and General Operations	24
Statement of Net Eligible Expenses	25
Statement of Mileage and Passenger Data (Unaudited)	26
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	27

INDEPENDENT AUDITOR'S REPORT
ON FINANCIAL STATEMENTS

To the Board of Directors
Branch Area Transit Authority
Branch County, Michigan

Norman & Paulsen, P.C.

Certified Public Accountants

127 W. Chicago Road

Sturgis, MI 49091

269.651.3228

Fax 269.651.5146

E-mail

normanpaulsen@charter.net

Other Location:

123 N. Main Street

Three Rivers, MI 49093

269.273.8641

Fax 269.278.8252

E-mail

nptr@npaccounting.com

We have audited the accompanying basic financial statements of Branch Area Transit Authority (the Authority) as of and for the year ended September 30, 2005, as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Branch Area Transit Authority as of September 30, 2005, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Donald L. Paulsen, CPA

Patrick J. Monahan, CPA

Bruce S. A. Gosling, CPA

Michael R. Wilson, CPA

Rick L. Strawser, CPA

Jerrel T. Norman (1941-1982)

Board of Directors
Branch Area Transit Authority

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the Branch Area Transit Authority basic financial statements. The accompanying other supplemental information, as identified in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Branch Area Transit Authority. Such information, except for that portion marked "unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements, taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2005, on our consideration of Branch Area Transit Authority internal control over financial reporting and on our tests of it's compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

November 4, 2005

Norman S. Paulsen, A.C.

BRANCH AREA TRANSIT AUTHORITY

MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2005

This section of the Authority's Financial Report presents management's overview and analysis of the Authority's financial performance for the fiscal year ended September 30, 2005. This section should be read in conjunction with the financial statements which follow this section.

Financial Highlights

- * The assets of the Authority exceeded it's liabilities at September 30, 2005, by \$2,516,562. Of this amount, \$1,702,865 represents net assets which are not invested in capital assets.
- * The Authority's total net assets increased by \$105,410.
- * The Authority remained free of long-term debt during the period.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The notes to the financial statements also contain more detail on some of the information presented in the financial statements. The financial statements of the Authority report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about it's activities. The Statement of Net Assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the Authority's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are recorded in this statement for some items that will only result in cash flows in future fiscal periods.

Financial Analysis

For the year ended September 30, 2005, assets exceeded liabilities by \$2,516,562. Transit is a capital-intensive enterprise, and approximately 32% of the net assets are invested in capital assets. The following is a summary of the Authority's net assets.

BRANCH AREA TRANSIT AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2005

Summary of Net Assets

	<u>2005</u>	<u>2004</u>
Assets:		
Current Assets	\$ 1,791,827	\$ 1,740,508
Capital Assets (Net)	<u>813,697</u>	<u>756,785</u>
Total Assets	<u>\$ 2,605,524</u>	<u>\$ 2,497,293</u>
Liabilities:		
Current liabilities	\$ 88,962	\$ 86,141
Net Assets:		
Invested in Capital Assets	813,697	756,785
Unrestricted	<u>1,702,865</u>	<u>1,654,367</u>
Total liabilities and Net Assets	<u>\$ 2,605,524</u>	<u>\$ 2,497,293</u>

The Authority's net assets increased by \$105,410 in 2005. The following is a summary Statement of Revenues, Expenses, and Changes in Net Assets which show how the increase in net assets occurred. Also shown is the change for the year ended September 30, 2004.

Summary Statement of Revenues, Expenses, and Changes in Net Assets

	<u>2005</u>	<u>2004</u>
Operating Revenue	\$ 184,200	\$ 177,722
Operating Expenses	<u>1,261,708</u>	<u>1,188,631</u>
Operating Loss	(1,077,508)	(1,010,909)
Taxes	359,867	347,185
Other Non-Operating Revenue	<u>635,540</u>	<u>618,351</u>
Total Non-Operating Revenue	<u>995,407</u>	<u>965,536</u>
Net Income (Loss)	(82,101)	(45,373)
Capital Grants	<u>187,511</u>	<u>237,251</u>
Change in Net Assets	<u>\$ 105,410</u>	<u>\$ 191,878</u>

BRANCH AREA TRANSIT AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2005

The following table shows 2005 revenue compared to 2004:

	<u>2005</u>	<u>2004</u>	<u>Increase/ (Decrease)</u>
REVENUES			
Operating			
Special transit fares	\$ 119,370	\$ 108,518	\$ 10,852
Demand-response (farebox)	39,343	41,062	(1,719)
Demand-response (tickets)	22,582	23,140	(558)
Advertising	2,905	5,002	(2,097)
Non-Operating			
State Assistance	442,300	456,036	(13,736)
Federal Assistance	149,327	126,180	23,147
Property taxes	359,867	347,185	12,682
Interest income	43,486	36,987	6,499
Other	427	(852)	1,279
CAPITAL CONTRIBUTIONS			
Federal	\$ 150,009	\$ 189,801	\$ (39,792)
State	37,502	47,450	(9,948)

The federal reimbursement rate increased from 10.95% in 2004 to 12.40% in 2005 for eligible expenses. For federal reimbursement computation net eligible expenses increased by \$104,903. The State reimbursement rate, however, dropped from 42.236619648% to 38.437574823%. For state reimbursement computation net eligible expenses increased by \$104,903.

The Authority's expenses may be reviewed in two formats:

Operating Expense by Department - The department describes the major function areas of the Authority and includes:

- Operations - Responsible for all on-street services, including operators, dispatchers, and schedulers.
- Maintenance - Responsible for providing vehicles (including fuel, parts, and cleaning) and facilities (upkeep, utilities, and rent).
- Administration - All other functions including executive direction, planning, marketing, information systems, purchasing and finance.
- Depreciation - Estimated pro-ration of the cost of capital assets over the useful life of the asset.

BRANCH AREA TRANSIT AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2005

The following table shows the expenses for 2005 compared to 2004 by department:

<u>DEPARTMENT</u>	<u>2005</u>	<u>2004</u>	<u>Increase/ (Decrease)</u>
Operations	\$ 816,853	\$ 757,280	\$ 59,573
Maintenance	119,030	119,437	(407)
Administration	200,074	174,643	25,431
Depreciation	<u>125,751</u>	<u>137,271</u>	<u>(11,520)</u>
Total expenses	<u>\$ 1,261,708</u>	<u>\$ 1,188,631</u>	<u>\$ 73,077</u>

Operations costs increased because wages were up by \$4,152; fuel costs were up by \$21,427, general insurance costs were up by \$12,445 and health insurance costs were up by \$25,541.

Maintenance costs remained relatively consistant.

Administration costs increased because wages and fringe benefit costs were up by \$9,881. Also, the millage election cost was \$11,885.

Operating Expense by Object - The object is the classification of expenses by type of item. The following table shows expenses for 2005 compared to 2004 by object:

<u>OBJECT</u>	<u>2005</u>	<u>2004</u>	<u>Increase/ (Decrease)</u>
Wages and benefits	\$ 885,170	\$ 855,893	\$ 29,277
Services	34,502	20,067	14,435
Supplies and materials	123,819	98,308	25,511
Utilities	25,030	21,624	3,406
Casualty and liability	58,610	45,658	12,952
Miscellaneous	8,826	9,810	(984)
Depreciation	<u>125,751</u>	<u>137,271</u>	<u>(11,520)</u>
Total	<u>\$ 1,261,708</u>	<u>\$ 1,188,631</u>	<u>\$ 73,077</u>

Wages and benefits increased as a result of higher wage and benefit rates.

Services increased as a result of the cost for the millage election.

Supplies and materials increased as a result of higher fuel costs.

Casualty and liability costs increased because of higher insurance premiums.

BRANCH AREA TRANSIT AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2005

Capital Assets

The Authority's investment in capital assets as of September 30, 2005, amounted to \$813,697 net of accumulated depreciation. Capital assets consist of land, buildings, buses, other vehicles, bus and garage equipment and office equipment. Major capital asset acquisitions during 2005 included the following:

Building addition - \$ 128,966

Service vehicle - \$ 27,115

Garage equipment - \$ 15,890

Office equipment - \$ 10,693

The above capital asset acquisitions were funded by federal and state capital grants, except for \$535 of office equipment.

Economic Factors and Future Outlook

At the time these financial statements were prepared and audited, the Authority was aware of the following items that could significantly affect it's financial health in the future:

With the current economic condition in the country, and especially in the State of Michigan, uncertainly surrounds the level at which federal and state operating assistance and capital grants will be funded.

Request for Information

This financial report is designed to provide a general overview of the Authority's finances for all those who have an interest in this agency's finances. Questions concerning any of the information presented in this report or requests for additional financial information should be addressed to the Branch Area Transit Authority, P.O. Box 979, 306 South Clay Street, Coldwater, MI 49036.

BASIC FINANCIAL STATEMENTS

BRANCH AREA TRANSIT AUTHORITY

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005

ASSETS

ASSETS

Current Assets

Cash and equivalents

\$ 1,640,181

Receivables:

Accounts

11,275

Federal government

51,882

State government

44,880

Inventory

9,167

Prepaid expenses

34,442

Capital assets, net

813,697

Total assets

2,605,524

LIABILITIES, ALL CURRENT

Accounts payable

37,118

Accrued salaries and wages

26,982

Due to other governmental units

Federal government

365

State government

24,497

Total current liabilities

88,962

NET ASSETS

Investment in capital assets,

net of related debt

813,697

Unrestricted

1,702,865

Total net assets

\$ 2,516,562

See accompanying notes to financial statements

BRANCH AREA TRANSIT AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2005

OPERATING REVENUES

Special transit fares	\$ 119,370
Demand-response (farebox)	39,343
Demand-response (tickets)	22,582
Advertising	<u>2,905</u>

Total operating revenue 184,200

OPERATING EXPENSES

Operations	884,687
Maintenance	127,868
General administration	<u>249,153</u>

Total operating expenses 1,261,708

Operating loss (1,077,508)

NON-OPERATING REVENUE

State grants	442,300
Federal grants	149,327
Local funding	359,971
Interest income	43,486
Donations	<u>323</u>

Total non-operating revenue 995,407

Net loss before contributions (82,101)

CAPITAL CONTRIBUTIONS

187,511

Change in net assets 105,410

TOTAL NET ASSETS - BEGINNING OF YEAR 2,411,152

TOTAL NET ASSETS - END OF YEAR \$ 2,516,562

See accompanying notes to financial statements

BRANCH AREA TRANSIT AUTHORITY

STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2005

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 186,974
Payments to suppliers	(280,360)
Payments to employees	<u>(880,562)</u>
Net cash used in operating activities	(973,948)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Federal and state grants	570,963
Local funding	<u>360,395</u>
Net cash provided by non-capital financing activities	931,358
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received on investments	43,486
CASH FLOWS FROM CAPITAL ACTIVITIES	
Purchase of capital assets	(182,664)
Receipts from capital grants	351,616
(Gain) on disposal of assets	<u>(99)</u>
Net cash provided by capital activities	<u>168,853</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	169,749
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,470,432</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,640,181</u>

BRANCH AREA TRANSIT AUTHORITY
STATEMENT OF CASH FLOWS - Continued
YEAR ENDED SEPTEMBER 30, 2005

Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating loss	\$ (1,077,508)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	125,751
Changes in assets and liabilities	
Accounts receivable	2,774
Inventory	(1,103)
Prepaid items	(14,632)
Accounts payable	(13,839)
Accrued payroll	<u>4,609</u>
Net cash used in operating activities	<u>\$ (973,948)</u>

See accompanying notes to financial statements

BRANCH AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2005

NOTE 1 - REPORTING ENTITY

Branch Area Transit Authority is a nonprofit corporation organized pursuant to the Public Transportation Authority Act 196 of the State of Michigan. Its member municipalities include the Cities of Coldwater and Bronson, the Villages of Quincy, Sherwood, and Union City, and the County of Branch.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Branch Area Transit Authority conform to generally accepted accounting principles as applicable to nonprofit entities. The following is a summary of the significant policies.

Basis of Accounting - The accrual basis of accounting is followed by the Branch Area Transit Authority. The accrual basis provides that revenues are recorded when earned and expenditures are recorded when the related liability is incurred.

Fixed Assets and Depreciation - Fixed assets are stated at cost or fair market value at date of gift. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments, when significant in amount, are capitalized. Provisions for depreciation of fixed assets are computed on the straight line method. Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives.

Inventory - Inventory consists of consumable materials and supplies and is valued at the lower of cost or market.

Cash Equivalents - All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

BRANCH AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued
YEAR ENDED SEPTEMBER 30, 2005

NOTE 3 - CASH AND EQUIVALENTS

The Authority uses financial institutions for cash and deposit purposes, which is in accordance with statutory authority. The accounts maintained are checking, savings, and certificates of deposit. The carrying value is \$1,640,181 and the bank balance is \$1,671,194.

The risk exposure of the cash and equivalents may be summarized as follows:

Insured	\$ 600,000
Uninsured	<u>1,071,194</u>
Total cash and equivalents	<u>\$1,671,194</u>

NOTE 4 - PROPERTY AND EQUIPMENT

Depreciation included in the determination of net earnings for the year ended September 30, 2005, amounted to \$125,751. As discussed in note 2, depreciation is computed by the straight line method. The principal categories of property and equipment may be summarized as follows:

	Purchased with Capital Grants	Purchased with Authority Funds	Total
Land	\$ 35,000	\$ -	\$ 35,000
Operating facility	1,056,247	21,264	1,077,511
Vehicles	696,053	5,816	701,869
Maintenance equipment	51,460	12,189	63,649
Office equipment	<u>66,970</u>	<u>7,687</u>	<u>74,657</u>
Total	1,905,730	46,956	1,952,686
Less: Accumulated depreciation	<u>1,101,882</u>	<u>37,107</u>	<u>1,138,989</u>
Undepreciated cost	<u>\$ 803,848</u>	<u>\$ 9,849</u>	<u>\$ 813,697</u>

When state funded assets are withdrawn from public transportation service, the disposition of the assets is to be determined by the Michigan Department of Transportation.

BRANCH AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued
YEAR ENDED SEPTEMBER 30, 2005

NOTE 5 - DUE FROM FEDERAL GOVERNMENT

Branch Area Transit Authority receives funding from the U.S. Department of Transportation under Section 5311 Operating Grants. The computation of the amount due from the federal government is as follows:

For the Year Ended September 30, 2005

Net eligible expenses	\$ 1,055,036	
Funding rate	<u>12.4%</u>	
Section 5311 revenue	130,824	
Funding received	87,938	
Due from federal government		42,886

For the Year Ended September 30, 2004

Net eligible expenses	\$ 950,133	
Funding rate	<u>10.95%</u>	
Section 5311 revenue	104,040	
Funding received	95,044	
Due from federal government		<u>8,996</u>
Total due from federal government		<u>\$ 51,882</u>

NOTE 6 - DUE TO FEDERAL GOVERNMENT

Branch Area Transit Authority receives funding from the U.S. Department of Transportation under Section 5311 Operating Grants. The computation of the amount due to the federal government is as follows:

For the Year Ended September 30, 2002

Net eligible expenses	\$ 757,390	
Funding rate	<u>10.95%</u>	
Section 5311 revenue	82,934	
Funding received	<u>83,299</u>	
Due to federal government		<u>365</u>
Total due to federal government		<u>\$ 365</u>

BRANCH AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued
YEAR ENDED SEPTEMBER 30, 2005

NOTE 7 - DUE FROM STATE GOVERNMENT

Branch Area Transit Authority receives funding from the State of Michigan for Specialized Services. The computation of the amount due from the State of Michigan under specialized services contract as of September 30, 2005, is as follows:

Eligible costs	\$ 21,355	
Funding received	<u>17,986</u>	
Due from state government		3,369

Branch Area Transit Authority receives funding from the State of Michigan for the Project Zero Program. The computation of the amount due from the State of Michigan under the Project Zero Agreement is as follows:

For the Year Ended September 30, 2004

Eligible costs	\$ 1,050,679	
Funding rate	<u>3.1911%</u>	
	33,528	
Add project zero overtime	<u>1,785</u>	
Funding earned	35,313	
State percent	75%	
Funding earned	26,485	
Maximum funding per contact	26,349	
Funding received	<u>25,645</u>	

Due from state government 704

For the Year Ended September 30, 2003

Eligible costs	\$ 979,172	
Funding rate	<u>5.7622%</u>	
	56,422	
Add project zero overtime	<u>2,462</u>	
Funding earned	58,884	
State percent	75%	
Funding earned	44,163	
Funding received	<u>42,048</u>	

Due from state government 2,115

BRANCH AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued
YEAR ENDED SEPTEMBER 30, 2005

NOTE 7 - DUE FROM STATE GOVERNMENT - (Continued)

Branch Area Transit Authority receives funding from the State of Michigan for the State of Michigan Operating Assistance Program. The computation of the amount due from the State of Michigan under Operating Assistance Agreement is as follows:

For the Year Ended September 30, 2004

Eligible costs	\$ 953,802
Funding rate	<u>42.236619648%</u>
Funding earned	402,854
Funding received	<u>371,563</u>

Due from state government	31,291
---------------------------	--------

For the Year Ended September 30, 2003

Eligible costs	\$ 856,120
Funding rate	<u>43.800078503%</u>
Funding earned	374,981
Funding received	<u>367,580</u>

Due from state government	<u>7,401</u>
---------------------------	--------------

Total due from state government	<u>\$ 44,880</u>
---------------------------------	------------------

NOTE 8 - DUE TO STATE GOVERNMENT

Branch Area Transit Authority receives funding from the State of Michigan for the State of Michigan Operating Assistance Program. The computation of the amount due to the State of Michigan under the Operating Assistance Agreement is as follows:

For the Year Ended September 30, 2005

Eligible costs	\$ 1,058,706
Funding rate	<u>38.437574823</u>
Funding earned	406,941
Funding received	<u>417,090</u>

Due to state government	10,149
-------------------------	--------

BRANCH AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued
YEAR ENDED SEPTEMBER 30, 2005

NOTE 8 - DUE TO STATE GOVERNMENT - Continued

For the Year Ended September 30, 2001

Eligible costs	\$ 705,455
Funding rate	<u>45.386751206%</u>
Funding earned	320,183
Funding received	<u>320,573</u>

Due to state government 390

Branch Area Transit Authority receives funding from the State of Michigan for Specialized Services. The computation of the amount due to the State of Michigan under the Specialized Services contract for the year ended September 30, 2002 is as follows:

Eligible costs	\$ 25,547
Funding received	<u>29,345</u>

Due to state government 3,798

Branch Area Transit Authority receives funding from the State of Michigan for the Project Zero Program. The computation of the amount due to the State of Michigan under the Project Zero Agreement is as follows:

For the Year Ended September 30, 2005

Eligible costs	\$ 1,134,741
Funding rate	<u>1.2201%</u>
	13,845
Add Project Zero overtime	<u>703</u>
Funding earned	14,548
State percent	75%
Funding earned	10,911
Funding received	<u>13,254</u>

Due to state government 2,343

BRANCH AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued
YEAR ENDED SEPTEMBER 30, 2005

NOTE 8 - DUE TO STATE GOVERNMENT - Continued

For the Year Ended September 30, 2002

Eligible costs	\$ 899,413	
Funding rate	<u>8.2496%</u>	
	74,198	
Add Project Zero overtime	<u>4,028</u>	
Funding earned	78,226	
Funding received	<u>86,044</u>	
Due to state government		<u>7,818</u>
Total due to state government		<u>\$ 24,497</u>

NOTE 9 - PROPERTY TAX REVENUE

Property taxes are levied each December 1, by the governmental entities within Branch County. The governmental units bill and collect property taxes, then remit them to the Authority. Property tax revenues are recognized when levied to the extent they are deemed to be collectable. The governmental units collect taxes until March 1, at which time real property taxes are turned over to the county for reimbursement from their revolving tax fund. The governmental units continue to collect delinquent personal property taxes.

The taxable value of all real and personal property on which Authority tax levies were based for the year ended September 30, 2005, was \$1,060,278,683 and the millage rate was .3391 mills. Property tax revenue is recorded under local funding.

NOTE 10- CAPITAL CONTRIBUTIONS

The following represents the capital contributions earned by Branch Area Transit Authority under federal and state funding:

<u>Contract</u>	<u>Federal</u>	<u>State</u>	<u>Total</u>
02-0021/Z5	\$ 15,139	\$ 3,785	\$ 18,924
02-0021,Z9	109,726	27,431	137,157
02-0021/Z10	8,126	2,032	10,158
02-0021/Z14	<u>17,018</u>	<u>4,254</u>	<u>21,272</u>
Total	<u>\$ 150,009</u>	<u>\$ 37,502</u>	<u>\$ 187,511</u>

BRANCH AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued
YEAR ENDED SEPTEMBER 30, 2005

NOTE 11- RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The Authority carries commercial insurance to cover these risks. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Authority. Settled claims have not exceeded this coverage in any of the past four fiscal years.

NOTE 12- CONTINGENCIES

Amounts received or receivable under grant programs are subject to audit and adjustment by the grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the Authority. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Authority expects such amounts, if any, to be immaterial.

OTHER SUPPLEMENTAL INFORMATION

BRANCH AREA TRANSIT AUTHORITY
STATEMENT OF OPERATING REVENUES
YEAR ENDED SEPTEMBER 30, 2005

	<u>Normal Services</u>	<u>Specialized Services</u>
Special transit fares	\$ 116,155	\$ 3,215
Demand - response (farebox)	35,632	3,711
Demand - response (tickets)	22,582	-
Advertising	<u>2,905</u>	<u>-</u>
Total operating revenues	<u>\$ 177,274</u>	<u>\$ 6,926</u>

<u>Project</u> <u>Zero</u>	<u>Total</u>
\$ -	\$ 119,370
-	39,343
-	22,582
<u>-</u>	<u>2,905</u>
<u>\$ -</u>	<u>\$ 184,200</u>

BRANCH AREA TRANSIT AUTHORITY

STATEMENT OF NONOPERATING REVENUES
YEAR ENDED SEPTEMBER 30, 2005

	<u>Normal Services</u>	<u>Specialized Services</u>
State of Michigan Operating Grants		
Local bus operating assistance	\$ 406,941	\$ -
Specialized services - operating assistance	-	21,355
Project zero - operating assistance	-	-
Michigan works - operating assistance	<u>-</u>	<u>-</u>
Total State of Michigan operating grants	406,941	21,355
Federal Operating Grants		
U.S. DOT operating grant - section 5311, RTAP	1,106	-
U.S. DOT operating grant - section 5311, contract 2002-0021/Z18/R1	130,824	-
U.S. Department of Health and Human Services, Title III	<u>15,985</u>	<u>1,412</u>
Total Federal operating grants	147,915	1,412
Local funding	359,971	-
Interest income	43,486	-
Donations	<u>270</u>	<u>53</u>
Total nonoperating revenues	<u>\$ 958,583</u>	<u>\$ 22,820</u>

<u>Project</u> <u>Zero</u>	<u>Total</u>
\$ -	\$ 406,941
-	21,355
10,911	10,911
<u>3,093</u>	<u>3,093</u>
14,004	442,300
-	1,106
-	130,824
<u>-</u>	<u>17,397</u>
-	149,327
-	359,971
-	43,486
<u>-</u>	<u>323</u>
<u>\$ 14,004</u>	<u>\$ 995,407</u>

BRANCH AREA TRANSIT AUTHORITY
STATEMENT OF OPERATING EXPENSES
YEAR ENDED SEPTEMBER 30, 2005

	<u>Normal Services</u>	<u>Specialized Services</u>
Labor		
Operator's salaries and wages	\$ 277,319	\$ 14,560
Other salaries and wages	161,741	8,492
Dispatcher's salaries and wages	95,468	5,012
Fringe benefits	296,787	15,583
Services		
Advertising/promotion media	10,613	557
Other services	21,790	1,144
Materials and supplies consumed		
Fuel and lubricants	82,742	4,344
Tires and tubes	5,789	304
Other materials and supplies	21,234	6,743
Utilities		
Other	20,003	1,050
Telephone	3,504	184
Casualty and liability costs		
Premiums for public liability and property damage insurance	50,191	2,635
Other insurance	4,853	255
Taxes		
Taxes/licenses	389	21
Miscellaneous expenses		
Travel, meetings, and training	1,797	95
Other miscellaneous expenses	3,158	141
Leases and rentals	2,970	156
Depreciation	<u>124,621</u>	<u>915</u>
Total operating expenses	<u>\$ 1,184,969</u>	<u>\$ 62,191</u>

	<u>Project Zero</u>	<u>Total</u>
\$	3,406	\$ 295,285
	1,986	172,219
	1,172	101,652
	3,644	316,014
	130	11,300
	268	23,202
	1,016	88,102
	71	6,164
	1,576	29,553
	246	21,299
	43	3,731
	616	53,442
	60	5,168
	5	415
	22	1,914
	36	3,335
	36	3,162
	<u>215</u>	<u>125,751</u>
\$	<u>14,548</u>	<u>\$ 1,261,708</u>

BRANCH AREA TRANSIT AUTHORITY

STATEMENT OF OPERATING EXPENSES BY CATEGORY
YEAR ENDED SEPTEMBER 30, 2005

	<u>Operations</u>	<u>Maintenance</u>	<u>General Administration</u>	<u>Total</u>
Labor				
Operator's salaries and wages	\$ 295,285	\$ -	\$ -	\$ 295,285
Other salaries and wages	-	68,954	103,265	172,219
Dispatcher's salaries and wages	101,652	-	-	101,652
Fringe benefits	225,239	37,298	53,477	316,014
Services				
Advertising/promotion media	-	-	11,300	11,300
Other services	-	6,400	16,802	23,202
Materials and supplies consumed				
Fuel and lubricants	87,842	-	260	88,102
Tires and tubes	6,164	-	-	6,164
Other materials and supplies	16,552	5,878	7,123	29,553
Utilities				
Other	21,299	-	-	21,299
Telephone	3,541	-	190	3,731
Casualty and liability costs				
Premiums for public liability and property damage insurance	53,442	-	-	53,442
Other insurance	-	-	5,168	5,168
Taxes				
Taxes/licenses	415	-	-	415
Miscellaneous expenses				
Travel, meetings and training	970	90	854	1,914
Other miscellaneous expenses	1,597	218	1,520	3,335
Leases and rentals	2,856	192	114	3,162
Depreciation	<u>67,833</u>	<u>8,838</u>	<u>49,080</u>	<u>125,751</u>
Total operating expenses	<u>\$ 884,687</u>	<u>\$ 127,868</u>	<u>\$ 249,153</u>	<u>\$1,261,708</u>

BRANCH AREA TRANSIT AUTHORITY

STATEMENT OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS
YEAR ENDED SEPTEMBER 30, 2005

	<u>RTAP</u>	<u>Project Zero</u>	<u>Specialized Services</u>
Labor	\$ -	\$ 6,564	\$ 28,064
Fringe benefits	-	3,644	15,583
Services	-	398	1,701
Materials and supplies	-	2,663	11,391
Utilities	-	289	1,234
Casualty and liability costs	-	676	2,890
Taxes	-	5	21
Miscellaneous	1,106	58	236
Leases and rentals	-	36	156
Depreciation	-	215	915
Total	1,106	14,548	62,191
Less: Ineligible expenses	<u>1,106</u>	<u>-</u>	<u>-</u>
Total eligible expenses	<u>\$ -</u>	<u>\$ 14,548</u>	<u>\$ 62,191</u>

<u>Normal</u> <u>Services</u>	<u>Total</u>
\$ 534,528	\$ 569,156
296,787	316,014
32,403	34,502
109,765	123,819
23,507	25,030
55,044	58,610
389	415
3,849	5,249
2,970	3,162
<u>124,621</u>	<u>125,751</u>
1,183,863	1,261,708
<u>125,158</u>	<u>126,264</u>
<u>\$1,058,705</u>	<u>\$ 1,135,444</u>

BRANCH AREA TRANSIT AUTHORITY
STATEMENT OF NET ELIGIBLE EXPENSES
YEAR ENDED SEPTEMBER 30, 2005

	Federal Section 5311 <u>Revenue</u>	State Operating <u>Assistance</u>
OPERATING EXPENSES		
Labor	\$ 534,528	\$ 534,528
Fringe benefits	296,787	296,787
Services	32,403	32,403
Materials and supplies	109,765	109,765
Utilities	23,507	23,507
Casualty and liability costs	55,044	55,044
Taxes	389	389
Miscellaneous	4,956	4,956
Leases and rentals	2,970	2,970
Depreciation	<u>124,621</u>	<u>124,621</u>
Total operating expenses	1,184,970	1,184,970
LESS INELIGIBLE EXPENSES		
CPA audit	3,670	-
RTAP grant	1,106	1,106
Penalties	537	537
Depreciation	<u>124,621</u>	<u>124,621</u>
Total ineligible expenses	<u>129,934</u>	<u>126,264</u>
Net eligible expenses	<u>\$ 1,055,036</u>	<u>\$1,058,706</u>
Federal Section 5311 revenue (12.4%)	<u>\$ 130,824</u>	
State Operating Assistance		
A. Reimbursement (38.437574823% x \$1,058,706)		<u>\$ 406,941</u>
B. Statutory cap (60% x \$953,803)		<u>\$ 572,282</u>
C. Must receive as a minimum 1997 floor		<u>\$ 300,106</u>

BRANCH AREA TRANSIT AUTHORITY

STATEMENT OF MILEAGE AND PASSENGER DATA
YEAR ENDED SEPTEMBER 30, 2005
(UNAUDITED)

	Public Transportation Mileage	Public Transportation Passengers
NORMAL SERVICES		
<u>Demand-Response</u>		
First quarter	68,625	21,925
Second quarter	72,922	24,387
Third quarter	72,217	22,616
Fourth quarter	<u>70,408</u>	<u>21,410</u>
Total normal services	<u>284,172</u>	<u>90,338</u>
SPECIALIZED SERVICES		
<u>Demand-Response</u>		
First quarter	3,874	1,545
Second quarter	2,941	1,114
Third quarter	3,897	1,227
Fourth quarter	<u>3,642</u>	<u>1,361</u>
Total specialized services	<u>14,354</u>	<u>5,247</u>
PROJECT ZERO		
<u>Demand-Response</u>		
First quarter	1,233	98
Second quarter	961	40
Third quarter	981	14
Fourth quarter	<u>-</u>	<u>-</u>
Total project zero	<u>3,175</u>	<u>152</u>
TOTAL OPERATION		
<u>Demand-Response</u>		
First quarter	73,732	23,568
Second quarter	76,824	25,541
Third quarter	77,095	23,857
Fourth quarter	<u>74,050</u>	<u>22,771</u>
Total operation	<u>301,701</u>	<u>95,737</u>

NOTE - The methodology used for compiling mileage and passenger data has been reviewed and found to be an adequate and reliable method for recording vehicle mileage and passenger data.

REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Branch Area Transit Authority

We have audited the basic financial statements of Branch Area Transit Authority as of and for the year ended September 30, 2005, and have issued our report thereon dated November 4, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Authority's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Norman & Paulsen, P.C.

Norman & Paulsen, P.C.

Certified Public Accountants

127 W. Chicago Road

Sturgis, MI 49091

269.651.3228

Fax 269.651.5146

E-mail

normanpaulsen@charter.net

Other Location:

123 N. Main Street

Three Rivers, MI 49093

269.273.8641

Fax 269.278.8252

E-mail

npnr@npaccounting.com

Donald L. Paulsen, CPA

Patrick J. Monahan, CPA

Bruce S. A. Gosling, CPA

Michael R. Wilson, CPA

Rick L. Strawser, CPA

Jerrel T. Norman (1941-1982)

November 4, 2005

- 27 -